

Message Text

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PAGE 01 ALGIER 00338 101803Z

46

ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 NEAE-00 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FEAE-00 FPC-01

H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

XMB-02 /103 W

----- 008177

P R 101550Z FEB 76

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC PRIORITY 3823

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

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PASS EXIMBANK FOR MORAN

E.OM 11652: N/A

TAGS: ENRG, AG

SUBJECT: ALGERIA MOVES AHEAD ON LNG

REF: (A) ALGIERS 0323, (B) ALGIERS 0214, (C) 75 ALGIERS 3146

1. SUMMARY: LESS THAN THREE WEEKS AFTER SELECTION OF BECHTEL TO COMPLETE ARZEW I LNG PLANT, SONATRACH HAS SIGNED CONTRACT WITH M. W. KELLOGG COMPANY (U.S.) TO CONSTRUCT 10.5 BILLION CUBIC METERS PER YEAR ARZEW II GAS LIQUEFACTION PLANT. CONTRACT IS COST-PLUS TYPE, WITH COST LIKELY BE IN \$800-900 MILLION RANGE. MOST OF GAS WILL APPARENTLY GO TO EUROPE, BUT U.S. EASCOGAS IS SPECIFICALLY NAMED AS CUSTOMER. FINANCING REMAINS TARGET OPEN QUESTION. ABOUT HALF OF FUNDS ARE LIMITED OFFICIAL USE

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PAGE 02 ALGIER 00338 101803Z

IN HAND, AND U.S. EXIMBANK WILL BE FORMALLY APPROACHED FOR

FINANCING NEXT WEEK. END SUMMARY.

2. WITH UNEXPECTED SPEED, ALGERIA SIGNED CONTRACT FEBRUARY 9 WITH M.W. KELLOGG COMPANY FOR CONSTRUCTION OF ARZEW-II LNG PLANT. CONTRACT SIGNATURE IS LESS THAN THREE WEEKS AFTER SELECTION OF BECHTEL TO TAKE OVER WORK ON ARZEW I LNG PLANT. ACCORDING TO ALGERIAN PRESS SERVICE RELEASE, NEW LNG PLANT WILL HAVE A PRODUCTION CAPACITY OF 10.5 BILLION CUBIC METERS PER YEAR. IT WILL ALSO PRODUCE 300,000 TONS PER YEAR OF BUTANE AND 350,000 TONS PER YEAR OF PROPANE, AND POSSIBLY SOME HELIUM. ACCORDING TO PRESS, COMPLETION OF PLANT IS SCHEDULED FOR SUMMER OF 1979.

3. PRESS NOTES THAT GAS PRODUCED BY PLANT WILL BE SOLD TO DISTRIGAZ (BELGIUM), EASCOGAS (U.S.) AND "OTHER CLIENTS WHO SIGNED GAS CONTRACTS IN 1975." ARTICLE ADDS THAT SONATRACH HAS ALSO DECIDED TO LAUNCH SHORTLY THE CONSTRUCTION OF A NEW 15 BILLION CUBIC METER PER YEAR GAS PLANT CAPACITY OF WHICH WILL BE INITIALLY DESTINED FOR EUROPEAN CONSORTIUM BUYERS. (COMMENT: WE DOUBT ACCURACY OF SOME OF PRESS COMMENTS RE PURCHASERS OF GAS. EUROPEAN CONSORTIUM NNO LONGER EXISTS, AND ITS MEMBERS ARE ARRANGING INDPENDENT DEALS WITH SONATRACH. ALSO SONATRACH OFFICIAL INDICATED (REFTEL A) THAT ARZEW II GAS LIKELY GO TO EUROPE AND U.S. EASCOGAS.)

4. ACCORDING TO PRESS, EQUIPMENT FOR PROJECT WILL COME FROM U.S.A., U.K., BELGIUM, AND OTHERS. CONTRACTS FOR ANCILLARY EQUIPMENT ARE ALSO IN PROGRESS FOR GAS TRATMENT FACILITIES AT HASSI R'MEL AND A 40-INCH HASSI-ARZEW PIPELINE.

5. EMBOFF MET MORNING OF FEB. 10 WITH MEMBERSOF KELLOGG TEAM INCLUDING FINANCIAL V.P.S DON MCGRAW AND PETER SWANN. IN ADDITION MATERIAL ABOVE, KELLOGG OFFICIALS NOTED THAT CONTRACT WAS COST-REIMBURSABLE TYPE. THEY EXPECTED THAT TOTAL FOREIGN CURRENCY COST OF PLANT WOULD AMOUNT TO ABOUT \$800-900 MILLION. COMPENSATION FORMULA FOR KELLOGG IS COMPLICATED, BUT BASICALLY INVOLVES FIXED MANAGEMENT FEE WITH NUMBER OF EXTRAS LIMITED OFFICIAL USE

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PAGE 03 ALGIER 00338 101803Z

INCLUDING BONUS-PENALTY PROVISIONS. KELLOGG OFFICIALS SAID THAT THEY VERY SURPRISED AT SONATRACH INSISTENCE THAT CONSTRUCTION ON PLANT BEGIN AS SOON AS POSSIBLE. KELLOGG HAS AGREED THAT PRELIMINARY SURVEYS WILL START SOON AND SERIOUS CONSTRUCTION EFFORTS WILL BEGIN IN ABOUT SIX MONTHS.

6. ACCORDING KELLOGG OFFICIALS, FINANCING REMAINS LARGEST OPEN QUESTION AT THIS POINT. SONATRACH HAS

INDICATED TO KELLOGG THAT \$325 MILLION IN CREDITS ALREADY OBTAINED FROM BELGIUM WILL BE USED FOR PLANT, AS WELL AS OLD ECGD (U.K.) \$200 MILLION LINE OF CREDIT. EURODOLLAR FINANCING (REFTEL B) AND SUPPLIERS' CREDITS FROM JAPN. THERE IS ALSO POSSIBILITY THAT SONATRACH WILL USE \$450 MILLION IN CREDITS FROM SPAIN (REF C) FOR PLANT; HOWEVER, KELLOGG BELIEVES IT MORE LIKELY THAT THESE FUNDS WILL BE USED FOR LNG SHIPS AND SPANISH SKILLED LABOR INSTEAD. FINALLY, SONATRACH HAS URGED KELLOGG TO APPEAL TO U.S. EXIMBANK FOR SASSISTANCE. OFFICIALS SAID THAT THEY HAD TOLD SONATRACH THAT THEY HAD VISITED EXIMBANK ABOUT TWO WEEKS AGO WITHOUT NOTABLY ENCOURAGING RESULTS, BUT THAT THEY WOULD MEET AGAIN WITH EXIMBANK OFFICIAL WEEK OF FEB. 16 WITH FORMAL PROPOSAL. KELLOGG FINANCIAL V.P. PETER SWANN NOTED THAT PROJECT WOULD PRESENT REAL CHALLENGE TO HIS FINANCIAL ORGANIZATION, WHICH WOULD HAVE TO SCOUR WORLD FOR MONEY.

7. IN EXPLAINING HASTE OF SONATRACH TO CONCLUDE CONTRACT, KELLOGG OFFICIALS NOTED THAT GHOZALI, PRESIDENT OF SONATRACH, HAD GIVEN CHIEF NEGOTIATOR KOUANI SIXTEEN DAYS AFTER BECHTEL CONTRACT SIGNED (JAN. 21) TO CONCLUDE ARZEW-II CONTRACT--"2 DAYS TO REST AND 14 TO NEGOTATE." KOUANI SAID TO HAVE BEEN IRRITATED HE HAD MISSED HIS DEADLINE EVEN BY A FEW DAYS. KELLOGG BELIEVES HEAVY PRESSURE STEMS FROM DESIRE OF HIGH LEVEL ALGERIANS TO MAKE UP FOR CHEMICO SETBACK AND TO CREATE PSYCHOLOGICAL ATMOSPHERE OF CONFIDENCE AND PROGRESS REGARDING ALGERIAN LNG.PARKER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NATURAL GAS, PETROLEUM INDUSTRY, INDUSTRIAL PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ALGIER00338
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760050-0771
From: ALGIERS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760266/aaaacflj.tel
Line Count: 144
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 ALGIERS 323, 76 ALGIERS 214, 76 ALGIERS 3146
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 30 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 MAR 2004 by greeneet>; APPROVED <03 JUN 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ALGERIA MOVES AHEAD ON LNG
TAGS: ENRG, AG, BECHTEL
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006